

The African Growth and Opportunity Act, Exports, and Development in Sub-Saharan Africa¹

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Abstract

The African Growth and Opportunity Act (AGOA) is the flagship of US commercial and development policy with Sub-Saharan Africa. This paper looks at the impact of the trade preferences, the central element of AGOA, on African countries' exports to the US and puts them in the perspective of the development of the region. The paper finds that, while stimulating export diversification in a few countries, AGOA has fallen short of the potential impetus that preferences could otherwise provide African exporters. The impact of AGOA would be enhanced if preferences were extended to all products. This means removing tariff barriers to a range of agricultural products and to textiles and a number of other manufactured goods. There also needs to be a fundamental change in approach to the rules of origin. Given the stage of development and economic size of Sub-Saharan Africa, non-restrictive rules of origin are crucial. For all countries in Africa, those that have and those that have not benefited from preferences, there are enormous infrastructure weaknesses and often extremely poor policy environments that raise trade costs and push African producers further away from international markets. Effective trade preferences (those with non-restrictive rules of origin) can provide a limited window of opportunity to export while these key barriers to trade are addressed. But dealing with the barriers is the priority.

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1. Introduction

The African Growth and Opportunity Act (AGOA) is the flagship of US commercial and development policy with Sub-Saharan Africa. First signed into law in 2000, AGOA has subsequently been extended and modified twice. The principal element of AGOA is an enhanced set of trade preferences with increased commodity coverage beyond that of the Generalized System of Preferences (GSP) for developing countries. This paper looks at the impact of these trade preferences on African countries' exports to the US and puts them in the perspective of the development of the region.

The paper finds that, while stimulating export diversification in a few countries, AGOA has fallen short of the potential impetus that preferences could otherwise provide African exporters. This is because of limitation in product coverage and impediments due to the rules of origin. More broadly, preferences should be considered as only one instrument in the arsenal of the international community. This is because so many of Africa's exports already enter Northern countries' markets duty free, but still face considerable constraints relating to quality, transport and supply chain management, together with poor domestic policy environments, that prevent these traditional products from realizing their development potential. This underscores the importance of aid for trade; development assistance that is targeted at helping developing countries to take advantage of trade opportunities.

For some countries, AGOA has stimulated export growth through diversification, primarily into apparel, with positive impacts on employment and incomes in the export sector. A central driver of this program has been the nonrestrictive rules of origin for apparel. These are set to expire in September 2007, and if not renewed will likely have a devastating impact on exports, employment and earnings in the 6-12 countries that have benefited so far, and remove an avenue for diversification for other African countries.

2. AGOA and Market Access

A key element of AGOA is improved access to the US market for African exporters through:

- Improved certainty and predictability of preferences by guaranteeing benefits until 2015 (the GSP expires at the end of 2006) and by removing limits on those benefits that arise when a country's exports of a product exceed a certain share of US imports or a particular monetary value (although these had already been removed for LDCs)
- The granting of preferences on a range of products normally excluded from the GSP
- Amendments to the rules of origin to allow for cumulation across all AGOA beneficiaries in meeting the standard 35 percent value-added requirement, of which 15 percentage points can be derived from imported US inputs
- The granting of duty-free preferences to apparel products.

Appendix 1 shows that in terms of improved market access the potential impact of AGOA differs between least developed countries (LDCs) and non-LDCs. For the LDCs what matters is whether they are able to access the preferences on apparel products since most of the other products liberalized under AGOA had already been liberalized under the GSP. In terms of the number of tariff lines liberalized, the principal impact of AGOA falls on the non-LDC Sub-Saharan African countries.

The inclusion of apparel ensures that AGOA removes significant tariff peaks within manufacturing. Although a number of above average duty manufactured products are excluded from preferences. Thus, the average margin of preference for manufactures under AGOA is more than 12 percent, compared to an average tariff for manufacturing as a whole of 3 percent. However, more than 900 tariff lines for manufactured products such as textiles and leather products are not covered by AGOA. The average duty on these excluded products is around 9 percent. Within agriculture, preferences under AGOA are granted for products with lower than average duties reflecting that AGOA excludes a range of high duty products. The average margin of preference under AGOA is 7.7 percent whereas the average agricultural tariff is 12 percent and the average duty on products excluded from AGOA is more than 30 percent.² As a result, African exporters still face substantial tariff escalation and tariff peaks for agricultural products.

How important are these remaining trade barriers? It is sometimes argued that since imports from Africa in many of these product categories are zero, suggesting little supply capacity, then the barriers cannot be important. Of course, if this is the case then there is no need to maintain these tariffs against Africa. In practice, the continuation of these barriers may well be stifling investment and preventing expansion of products in which African countries may have export potential. These supply potentials cannot be observed. Nevertheless, for certain products that are still subject to tariff restrictions under AGOA we do observe exports from Africa to the EU (see Appendix 2). Trade with the EU is most extensive in sugar and cotton, both of which are subject to very high duties in the US, although the US subsidy regime for cotton is also a key element restricting market access to the US and undermining export returns for African producers. There are also excluded products for which preferences could give a substantial incentive to exports from Africa. For example, peanuts from AGOA beneficiaries are subject to a duty of 163.8% and in addition further safeguard duties can be levied which are targeted against low priced imported peanuts, precisely those that can be exported from Africa. Finally, it is often asserted that stimulating the textile sector of African countries is a key objective, yet textile products from African countries are subject to duties in the US.³ As we shall argue below it is a mistaken belief that investment in textile capacity can be encouraged by restrictive rules of origin on the content of apparel exports.

3. Changes in Africa's Exports to the US under AGOA

Exports of AGOA countries to the US have increased substantially since 2001, but looking behind the numbers indicates that only a small share of the increment is directly attributable to AGOA. The change in total US imports under AGOA is a rather misleading indicator of the impact of AGOA. This is because there is a small preference⁴ on imports of crude oil from African countries, which means that these imports are recorded under AGOA. Oil imports accounted for 90 percent of all imports recorded under AGOA in 2004. These oil imports

² These average tariffs include conversion of specific duties to ad valorem equivalents using aggregate import quantities.

³ With the narrow exception of hand loomed, handmade and folklore articles.

⁴ Small relative to the value of a barrel of oil, but large in absolute terms. For example, the US imported almost \$15 billion of crude oil from Nigeria in 2004 which would normally be subject to a duty of 10.5 per barrel. This translates into an ad valorem tax of about 0.3 percent. However, the value of this preference under AGOA amounted to over \$40 million. An important question is who benefited from this preference and how much of the money actually went to Nigeria and then how much of this was used to support economic development.

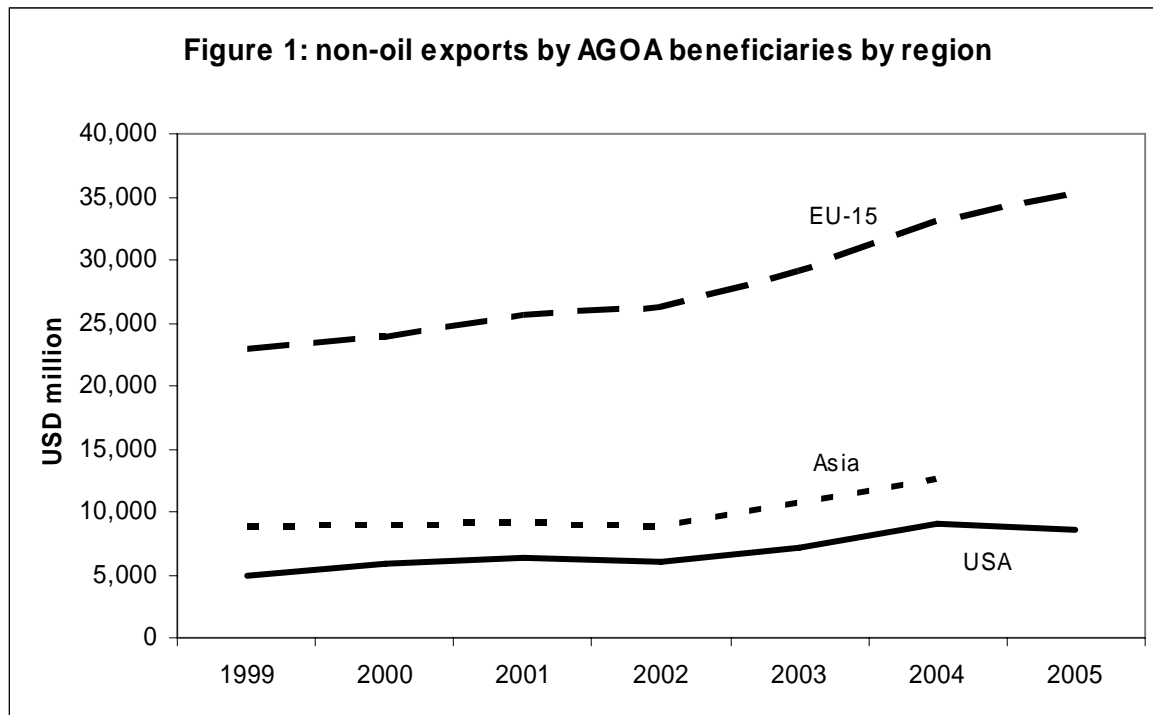
have not been stimulated by AGOA and would have occurred in the absence of AGOA. US imports under AGOA increased nearly three-fold between 2001 and 2004, but 89 percent of this increase is due to imports of crude oil. The recent increase in oil prices exacerbates the problem, since about half of the increase in the value of oil imports reflects increased quantities and the other half reflects higher prices. Hence, a meaningful analysis of the impact of AGOA needs to be based upon non-oil imports, which is the approach we take in the rest of this paper.

We start by comparing non-oil exports of AGOA beneficiaries⁵ to the US with their exports to other regions, specifically the EU and Asia. Figure 1 shows that the EU is the main market for the exports of AGOA beneficiaries, accounting for around 60% of exports to these three regions. Non-oil exports from AGOA beneficiaries to all regions grew strongly over the first 5 years of this decade. Between 1999 and 2004 export growth to the US was the strongest and the share of the US in AGOA beneficiaries' exports to these three regions increased from 14.3 to 16.6 percent⁶, although exports to the US declined in 2005 reflecting falling exports of apparel products. However, this export growth by AGOA beneficiaries is not broadly based. Some countries have seen very significant export growth while others have seen declines in the value of exports. For example, exports of Namibia to the US more than quadrupled between 1999 and 2005 while exports from Botswana have increased more than 10-fold (85% of the increase are due to increased diamond exports). On the other hand, exports from Ghana to the US fell by almost a half over the same period. Overall, 24 of the AGOA beneficiaries experienced a growth in non-oil exports since 1999 while exports declined for the remaining 13 beneficiaries.

Figure 1 shows total exports to the US and other regions but it does not isolate the impact of AGOA. Figure 2 shows the value of AGOA beneficiaries exports to the US that actually enter under AGOA, the value that enters under the GSP and finally the value of exports that does not enter under a specific program and is eligible to pay the normal (MFN) duty rate. For the vast majority of exports from these African countries that enter the US under no program the valid MFN duty is zero, reflecting exports of primary products and minerals. However, as noted above, there are a number of products that are excluded from AGOA preferences, mainly sensitive agricultural products and textiles, where exports from Africa are subject to, often very high, duties. Currently, the value of such exports is very low.

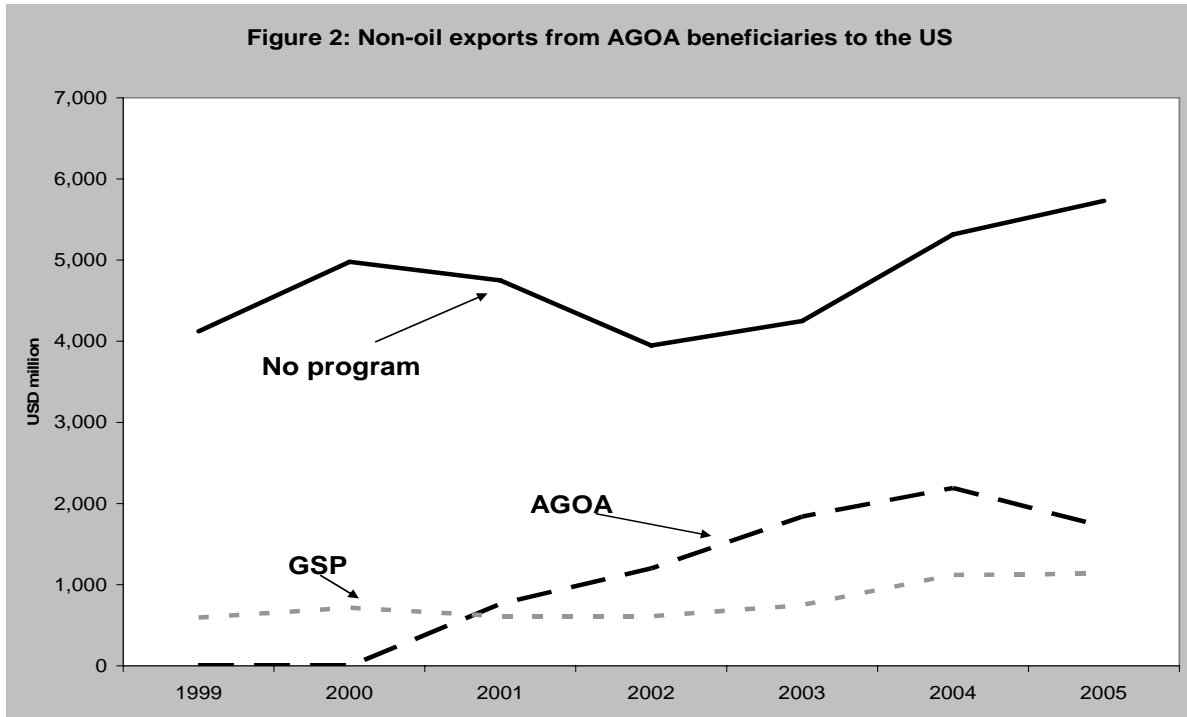
⁵ Our analysis is based on the 37 AGOA beneficiaries of 2005 that are listed in Table 1 and look at the evolution of the exports of these countries as a group over time. Since AGOA was launched in 2001 Sierra Leone, Gambia, DR Congo, Angola and Burkina Faso have become beneficiaries. Burundi becomes a beneficiary in 2006. Countries that have been removed from the list of beneficiaries are Eritrea, Central African Republic and Cote d'Ivoire, while Mauritania loses eligibility in 2006.

⁶ Exports to the US have increased by 82 percent compared to a 57 percent increase in exports to the EU. However, in absolute terms the increase in the dollar value of exports to the EU is much larger, being more than double that of the increase in the dollar value of exports to the US. These trends in the dollar value of exports reflect the appreciation of the euro against the dollar over the period since 2001.



In addition, there are cases where although an export is eligible for GSP or AGOA preferences it does not request those preferences and enters the US paying the MFN duty. This may reflect lack of knowledge of those preferences, or much more likely, that the costs of satisfying the rules of origin exceed the value of the preference. For example, in 2004 more than 50 percent of Mauritius's exports of knitted apparel that was eligible for AGOA preferences entered under no program, probably because complying with those rules would have undermined the ability to compete in the US market. In 2005, when Mauritius had access under the third country fabric rule, this value fell to 22 percent (we return to the issue of rules of origin in more detail below).

Figure 2 shows that exports to the US under AGOA have grown strongly since 2000 reaching nearly \$2.2 billion in 2004 but falling to \$1.7 billion in 2005. Exports entering under the GSP have also increased since 2001 and their dollar value in 2005 was almost double that of 1999. The majority of exports from AGOA beneficiaries to the US continue to enter under no program, although most are subject to a zero duty. Exports entering under no program have also increased strongly in recent years and were 50% higher in 2005 than in 1999. Some of the decline in no program exports in 2001 and 2002 reflects the shift into the use of AGOA preferences. As we shall see later, trade under AGOA is not evenly distributed across countries, a small group of countries account for the vast majority of AGOA exports. Exports under AGOA are also highly concentrated on a particular product, apparel, to which we now turn. Apparel accounts for much of the increase under AGOA up to 2004 and accounts for 40 percent of the decrease in AGOA trade in 2005.



4. Exports under AGOA Are Driven by Apparel

Diversification into new export categories, reducing the dependence on exports of traditional primary commodities, is a major objective for many developing countries. Exports of apparel have provided an initial step on the route to more diversified exports for many developing countries. Through manufactures of apparel developing countries have been able to significantly increase and diversify exports with positive effects on incomes, employment, and poverty.⁷ Apparel remains a key sector for many developing countries since they can exploit their comparative advantage in low labor cost operations whilst many apparel products remain subject to relatively high tariff barriers in the EU and the US. In addition, technology is relatively simple, start-up costs are comparatively small and scale economies are not important, all favoring production in low labor cost locations.

Indeed, it is exports of apparel that have been at the forefront of the expansion of Africa's non-oil exports to the US under AGOA. Exports of apparel to the US from AGOA beneficiaries have increased by 140 percent since 2000. Exports of apparel have grown much faster than exports of other non-oil products leading to a substantial diversification of overall exports. The share of apparel in these countries exports to the US has increased from 13 percent to 20 percent. All of the increase in apparel exports has taken place under AGOA, which offers substantial preferences for African countries since tariffs on many apparel products exceed 15%. This expansion took place while major exporters of apparel in Asia

⁷ Kabeeer and Mahmoud (2004) suggest that the production of garments for export in Bangladesh has generated 1.6 million new jobs, most of which were captured by women. Many of these workers tend to be migrants from poorer areas. Kabeeer and Mahmoud also find that wages for garment workers are double those of other workers involved in nontradable activities. There is, however, some evidence to suggest that workers in this sector are vulnerable to changing employment contracts and the increasing "casualization" of work (Nadvi 2004).

faced quantitative restrictions on their exports to the US under the Agreement of Textiles and Apparel (ATC). These quotas were removed (although some restrictions have been re-imposed on China) at the end of 2004, the impact of which we briefly review later.

Exports of apparel are concentrated on a small number of countries with 96 percent of US imports of apparel under AGOA in 2004 coming from just 7 countries and 75% from just 4 beneficiaries (Kenya, Lesotho, Madagascar, and Swaziland). While apparel exports from Sub-Saharan countries to the US have generally decreased during 2005, some new countries are emerging as apparel exporters. Botswana, Tanzania, Uganda⁸, Mozambique, and Ethiopia have all substantially increased exports of apparel in 2005. A crucial feature of this expansion of apparel exports has been the trade supporting nature of the rules of origin that the US has adopted for apparel exports under AGOA. However, these rules of origin are due to be removed in 2007, which will severely impact apparel exports under AGOA. We therefore proceed to discuss in more detail the rules of origin under AGOA.

5.1 The Importance of the Rules of Origin in Determining the Impact of AGOA

As in all preferential schemes, access under AGOA is governed by rules of origin. In general, the way that the rules of origin are specified is a major determinant of the impact of preferential trade agreements. Rules of origin are necessary to ensure that only products from beneficiary countries are granted trade preferences by preventing trade deflection, whereby products from nonbeneficiary countries are transshipped through the beneficiary (with minimal processing) so as to avoid the payment of tariffs. Avoiding trade deflection is in the interest of the country that grants the preference as well as the one that receives it. However, rules of origin for non-reciprocal trade preferences are set by the preference-granting country and are often manipulated to achieve other objectives. Too often, the result is that market access for the beneficiaries is limited, and the objective of promoting developing-country exports is undermined.

The issue of rules of origin arises when products produced in Africa seeking preferences in the US under AGOA contain imported inputs. In this case the rules of origin specify how much work on the product must be undertaken in the beneficiary country for it to be deemed as originating in that country. The higher the level of working that is required by the rules of origin, the more difficult they are to satisfy and the more they constrain market access (relative to what would be required to prevent preferences being granted to products that have been subject to only minimal processing). Under AGOA there are general rules of origin that apply to all products with the exception of apparel. Given the importance of the increase in trade in apparel under AGOA we continue by discussing the role that the rules of origin have played in stimulating apparel exports. We then proceed to discuss the general rules of origin.

5.2 Rules of Origin for Apparel

When the US grants preferences for apparel products, such as under the Caribbean Basin Initiative, the rules of origin for apparel require that a specific process take place such that

⁸ There is some controversy concerning the impact of the single factory in Uganda producing apparel for export under AGOA. See, for example, 'Ugandan firms struggle despite US deal', <http://news.bbc.co.uk/1/hi/business/3857573.htm>.

articles need to be made from US fabric which in turn has to be produced from US yarn.⁹ This basic approach to rules of origin for apparel is carried forward to AGOA such that duty-free preferences are granted to apparel products assembled from fabrics and yarns formed and cut in the United States. However, AGOA goes further and also allows access to apparel

- assembled from fabrics formed in one or more of the AGOA beneficiaries from U.S. or regional yarns, subject to quantitative limits
- assembled in lesser developed countries¹⁰ from any fabric or yarn.

Apparel assembled from non-U.S. fabrics is subject to quantitative restrictions. AGOA III defines a limit for 2003 of 4.747 percent of the total quantity of U.S. imports of apparel (defined in terms of square metre equivalents (SME) of imports in the preceding 12 month period) rising to 7 percent in 2008 and then maintained at that level until the end of AGOA in 2015. Within this there is a sub-limit on imports under the special rule of origin which allows for global sourcing of fabrics – the third country fabric rule. The key feature of this rule is that apparel producers may use fabrics and yarn from the most efficient sources (for example, from China) and still qualify for AGOA preferences. For the year starting in October 2005 this sub cap will be equal to 2.9285 percent of total U.S. apparel imports in the previous year. However, this limit will be reduced to 1.6071 percent for the year starting October 2006.¹¹ Then this third country fabric provision will be removed entirely at the end of September 2007. This will have a profound impact on trade under AGOA.

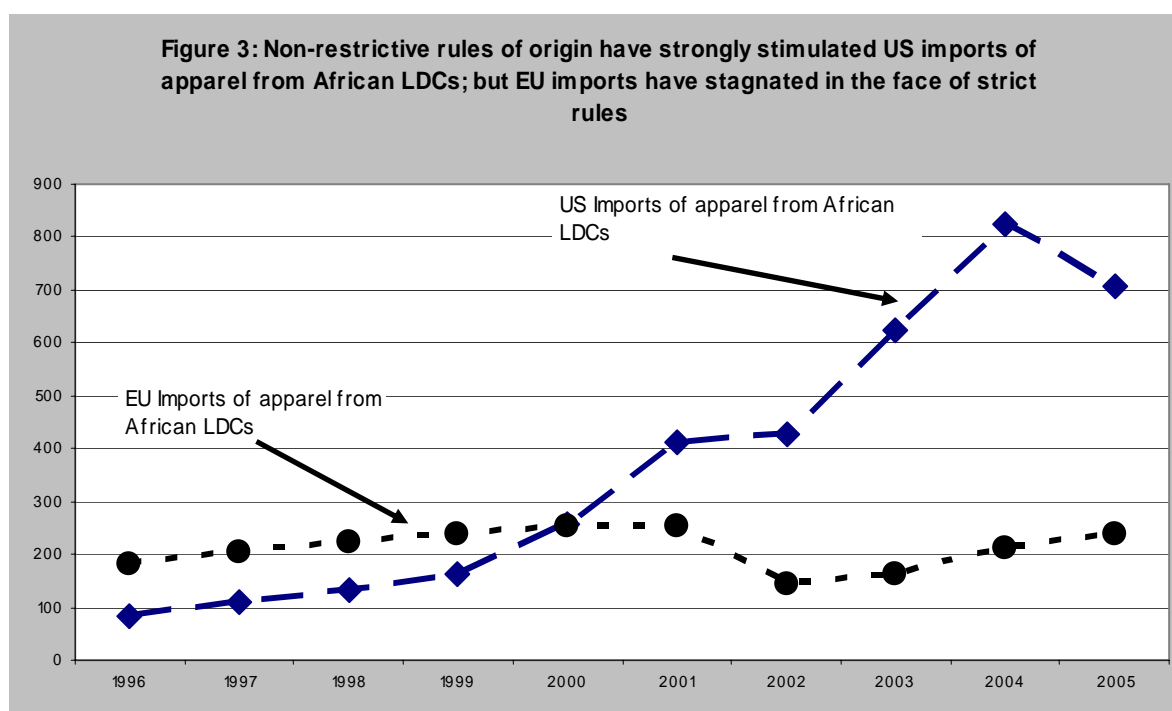
For the year October 2004 to end of September 2005 the overall quota was 34 percent filled. Within this, the limit on products subject to the non-restrictive rules of origin was 64 percent utilized. While the quota on products assembled from regional fabric was less than 3 percent filled. The volume of African exports of apparel accessing the US market under the regional fabric requirements of AGOA has actually declined since 2001, from 28.9 million SMEs to 27.4 million SMEs for the period October 2004 to September 2005. On the other hand, African exports of apparel to the US under the third country fabric provisions of AGOA have increased from 158.9 million SMEs in 2001 to 343.4 million SMEs in 2005. Thus, *all of the growth in apparel exports under AGOA since 2001 has occurred due to the provision allowing use of third country fabrics.*

⁹ See Brenton and Ozden (2005) for more details.

¹⁰ Lesser developed countries are defined as countries with GNP per head of less than \$1500 in 1998 plus Botswana and Namibia. As of today 24 countries are qualified for apparel preferences and all have been designated as “lesser developed countries,” with the exception of South Africa. Mauritius has recently joined the group of countries eligible for this third country fabric rule after an amendment to the AGOA Acceleration Act of 2004 and following intense efforts by its government. The amendment limits Mauritius to a cap of about 27 million square meter equivalents (SMEs). Mattoo et al (2003) show the restrictiveness of the general rule of origin for apparel relative to the third country fabric provisions.

¹¹ The impact of the reduction in the quota for apparel exported under the third country fabric rule will depend in part on the level of US imports of apparel in the year to September 2006. If total exports were to remain at the same level as in the year to September 2005 then the quota for 2006/2007 would be just 7 percent higher than the actual amount of exports of apparel using third country fabric in the year to October 2005. Hence, scope for further growth by existing exporters and the opportunity for new exporters to enter the market would be removed.

It is interesting to compare African countries' performance in exporting apparel under AGOA with changes in their exports to the EU. Access to the EU is duty and quota free under either the Cotonou Agreement or Everything but Arms. Figure 3 shows that exports of apparel from African least developed countries (LDCs) to the EU have stagnated despite preferences, while exports to the US under AGOA have grown very strongly. Exports of apparel from African LDCs to the EU and US were almost equal in 2000, but the value of exports to the US in 2004 was almost four times greater than the value of exports to the EU.



The key factor explaining why exports to the US have grown much faster than to the EU is the rules of origin. EU rules stipulate production from yarn. This entails that a double transformation process must take place in the beneficiary with the yarn being woven into fabric and then the fabric cut and made-up into apparel. These rules prohibit the use of imported fabric, although cumulation provisions allow for the use of inputs produced in other ACP countries. To obtain preferences, apparel producers must use local, EU or ACP fabrics. They may not use fabrics from the main fabric-producing countries in Asia and still qualify for EU preferences—a binding restriction, since few countries in Africa have competitive fabric industries. The EU rules do not allow producers in African LDCs the flexibility they currently have under AGOA to source fabrics globally. It is worth remembering that the EU has granted preferences to African countries for apparel subject to these strict rules of origin for more than 20 years under the Lome and then Cotonou agreements. However, these strict rules have done little to encourage the development of an efficient fabric industry in Africa and are likely to have severely constrained the impact of preferences in stimulating the apparel industry.¹²

¹² See Brenton and Ozden (2005) for a more detailed analysis of the impact of the EBA and AGOA on apparel exports from African LDCs and the role of the rules of origin.

The specific justification for removing the third country fabric provision is to encourage the expansion of fabric production in Africa, consistent with the view that vertical integration in Africa is crucial to survival in a world in which competitors in Asia are no longer constrained by quotas. However, the basis for this view is not well-founded¹³ and, as argued above, the shift to restrictive rules of origin will not lead to the emergence of competitive textile producers in Africa, and will probably undermine the prospects of the sector. Textile capacity will only emerge if production of apparel continues. If the removal of the third country provision undermines the viability of the apparel sector then there will be no demand for locally produced yarns and fabrics (Manchester Trade Team 2005). Very little investment in textile production is actually taking place in Africa resulting in widespread shortage of textile inputs for the apparel sector (ITC 2004). Substantial improvements in infrastructure, especially power and transport, together with a better climate for investment are essential requirements for significant investments in textile production.

The key to survival and success for African firms in the competitive global apparel sector is to improve productivity through better training and superior management and to gradually move towards providing a fuller range of services to buyers encompassing product development, fabric sourcing, cutting, sewing packaging, quality control, trade financing and logistics arrangements (ITC 2004, Manchester Trade Team 2005). It is worth noting in passing that China imports substantial amounts of textile products to support its apparel sector. In 2004, the value of Chinese imports of textile fabrics amounted to over 53 percent of the amount of Chinese exports of fabrics. In fact, China imported considerably more textile fabrics than did the US in 2004. Bangladesh has been able to develop substantial exports of apparel in the absence of a strong vertically integrated industry.¹⁴

5.3 The General Rules of Origin

The rules of origin that the US and EU apply to apparel products are undoubtedly restrictive for developing countries and their liberalization under AGOA has clearly been an important factor in stimulating exports from Africa. For all other products the rule of origin imposed by the US for preferential access under the GSP and AGOA is that at least 35 percent of the price paid for the product upon its export to the US must be due to activities in the country of final production that is seeking preferences. AGOA does allow for cumulation with other AGOA beneficiaries and the US. However, cumulation has not proven to be a useful mechanism for limiting the restrictiveness of rules of origin; see Box 1. The key question is whether this 35 percent value-added requirement is more than is necessary to prevent trade deflection and would a lower requirement that is more conducive to trade achieve this task.

In answering these questions it is important to consider that: (1) in the modern globalized world, policies that constrain access to the most appropriate and cheapest inputs seriously undermine competitiveness, (2) the smaller the country and the less it is developed the more likely it will have to access the world market to obtain the inputs it needs, (3) the comparative

¹³ See also Stevens and Kenan (2004)

¹⁴ In fact, exports to the EU, where unlike to US, Bangladesh is eligible for preferences on apparel, could have been higher if the EU had not imposed the strict rule of origin requiring production from yarn. As a result of this rule only about half of Bangladesh's exports of apparel to the EU actually receive preferences.

advantage of developing countries derives from their low labor costs, and (4) complex documentation requirements to prove compliance with rules of origin are costly to meet in many developing countries. When the rules of origin are set at too demanding a level they create biases against small firms and firms in low-income countries. They restrict access to the most efficient producers of inputs and penalize the utilization of low-cost labor in the production process.

Box 1: Do Cumulation Provisions Lessen the Restrictiveness of the Rules of Origin and Encourage Regional Integration?

Cumulation is an instrument that allows producers to import materials from a specific country or regional group of countries without undermining the origin of the final product. AGOA allows for cumulation with the US and among all Sub-Saharan African beneficiaries. This cumulation is seen as offsetting the restrictiveness of the rules of origin and as a means of stimulating regional economic integration among African countries. Restrictive rules of origin with cumulation are seen as useful in encouraging regional activities that could be competitive in the global market if only a certain scale of operation is achieved. But is this justified? Do restrictive rules of origin encourage regional activities?

First, if the rules of origin are not restrictive, there is no need for cumulation. The key point is that, as with sourcing within a country, if efficiently produced inputs are available within the region then they will be used by other producers regardless of the rules of origin. However, when this is not the case, using rules of origin to force producers in Africa to use higher cost regional inputs undermines competitiveness. As long as the most efficient producer of the required inputs is excluded from the area of cumulation then the offset to the restrictiveness of the rules of origin will be, at best, partial and may well be worthless. Forcing firms to use high cost regional inputs is unlikely to be a recipe for successful regional integration and will, in practice, limit trade between partners.¹⁵ In addition, even if policy makers could correctly identify those activities in which the region could be efficient at larger scale (which is most unlikely) restrictive rules of origin are not an appropriate response; better less distortive measures are available. Indeed, there is no strong empirical evidence to support the efficacy of cumulation provision under AGOA or any other program of preferences for developing countries.

In general, the larger an economic entity the broader the range of economic activities and the more likely that an efficient input supplier can be found locally. Conversely, small economic entities have much greater need to access the global market for their inputs. The economic size of Sub-Saharan Africa is very small and so the scope of final goods producers to source inputs from within the region is severely limited. In addition, poor infrastructure within and especially between SSA countries, make transport between these countries extremely costly. It is worth remembering that the economic size (combined GDP) of all Sub-Saharan Africa countries taken together is considerably less than the economic size (gross state product) of the state of Illinois. Would it make sense for producers of final goods in the state of Illinois to have to use inputs produced within the state to be able to sell their goods duty free in other US states?

A firm in a small least developed country that has to import its inputs will find it more difficult to satisfy a relatively high value-added rule compared to a firm in a larger more advanced country that can source inputs locally. Small firms seeking to establish themselves in the global market will find it very difficult if they are penalized by having to use more expensive and less appropriate inputs. Overly restrictive rules of origin deny producers in developing countries freedom to choose the source of their inputs, which can mean that

¹⁵ See Brenton, Flatters and Kalenga (2005) for the example of SADC.

production capacities that could have had a substantial economic and development impact are denied preferential access. In some cases it may mean that investment in such capacities may not take place. If needed inputs are competitively produced by local firms, exporters will always source locally to avoid transport and other trade-related costs. However, if the right inputs are not available locally at a competitive price, then producers must look to overseas suppliers.

A firm in a least developed country with lower labor costs will find it more difficult to satisfy a 35 percent value added rule than a firm in a more advanced country with higher labor costs (all other things equal). It is also important to recognize that the rules of origin define requirements related to the product that is exported rather than the economic activities that produce it. There will be cases where an activity may generate a substantial number of jobs but the product produced will not satisfy the rules of origin.

An argument that is commonly used to support high value-added requirements is that such strict rules of origin are needed so as to stimulate the emergence of integrated production structures to maximize the impact on employment and to ensure that it is not just low value-added activities that are undertaken in the developing countries. However, there is no evidence from the past 20 and more years that strict rules of origin in preferential trade arrangements have done anything to stimulate the development of integrated production structures or raise the amount of value-added that is undertaken in developing countries. In today's globalised world, strict rules of origin constrain firms in developing countries in integrating into global and regional production networks and in effect act to dampen the location of any value-added activities.

In the case of AGOA it is difficult to directly assess how restrictive the 35% value-added requirement is. However, it is clear that trade preferences have had little impact outside of apparel. But margins of preference are typically much lower for other products, such that the costs of satisfying and proving conformity with the origin requirements may easily exceed the benefits from requesting preferential access.¹⁶ Following a careful examination of trade preferences for Africa, Stevens and Kenan (2004) conclude that it is very difficult to set the rules of origin 'just right', but to increase the opportunities for beneficiaries, preference givers "should always err on the side of cautious liberality". The Blair report has recently proposed that an appropriate rule of origin for preferences granted to Sub-Saharan firms is a value-added requirement of 10 percent. This would allow African exporters the needed flexibility to source inputs and to exploit their comparative advantage in labor-intensive products while preventing mere repackaging and other minimal operations. If value-added of 10% entails that useful economic activity takes place in the beneficiary then the rules of origin should not require higher amounts. Also a 10% value-added requirement common across all products is more transparent, simpler for firms to satisfy, and easier to administer by customs and other agencies than a higher value added requirement with cumulation.

However, the use of a value-added rule can cause particular problems for firms in developing countries, particularly in the least developed. Proving compliance can be costly for firms that

¹⁶ There are a number of high duty products, such as footwear, with labor intensive final stages of production that have seen little export response under AGOA.

will require sophisticated accounting systems and the ability to resolve often-complex accounting questions. In addition, under the value added method origin is sensitive to changes in the factors determining production cost differentials across countries such as exchange rates, wages and commodity prices. For example, operations that confer origin in one location may not do so in another because of differences in wage costs. An operation that confers origin today may not do so tomorrow if exchange rates change. For these reasons it is useful to allow firms in developing countries the option of satisfying *either* a value-added rule (of 10%) *or* the alternative of satisfying a change of tariff sub-heading requirement (the exported product cannot be the “same”, in terms of the tariff classification, as the imported inputs).¹⁷ The latter is not subject to uncertainty regarding changes in exchange rates and prices and is relatively straightforward to implement. In terms of documentary requirements it requires that traders keep records that show the tariff classification of the final product and all the imported inputs.

6. The Value of US Trade Preferences

We now proceed to discuss the value of AGOA (and GSP) preferences that are actually requested by African exporters.¹⁸ We assume that all of the rents from preferences go to developing country exporters. However, if there is little effective competition among importers of the product then the exporters may be unable to acquire much of the price premium. Ozden and Olarreaga (2005) find evidence that only one-third of the available rents for African exports of apparel to the US under AGOA actually accrue to the exporters. Hence, our calculations will provide an upper bound on the value of AGOA preferences to African countries.

In Table 1 countries are ordered according to the magnitude of the value of preferences, expressed as a share of the value of the country’s total exports to the US. The scope for preferences to play a significant role given the existing structure of trade is determined by the extent to which the beneficiary exports to the US products eligible for preferences. This is captured in the second column of the table, which shows the proportion of exports to the US in products subject to a zero duty. For example, 99 percent of DR Congo’s non-oil exports to the US in 2005 were of products with a zero tariff (mainly diamonds) for which no preference can be granted. Hence, GSP and AGOA preferences can have virtually no immediate impact on DR Congo. For AGOA preferences to be a tool for non-oil export expansion for DR Congo they will have to be a vehicle that stimulates diversification into a broader range of products. On the other hand, only 3 percent of Lesotho’s exports to the US are products that are subject to zero duties, reflecting the importance of apparel products.

¹⁷ In a small number of cases a change of tariff sub-heading (the 6 digit level of the Harmonized System) will not be sufficient to ensure that substantial economic activity has taken place in the beneficiary. For these products another alternative for satisfying origin can be offered.

¹⁸ The value of preferences is calculated as the sum across exported products of the amount of exports requesting preferences under the GSP or AGOA multiplied by the tariff rate (including specific duties) for that product. This is a measure of the tariff duties that would have been paid if AGOA and GSP preferences were not available. This is a measure of the value of preferences after the supply response to those preferences has taken place.

Table 1: The Value of US Non-Oil Trade Preferences (AGOA and GSP) in 2005

Country	Total exports (\$ 1000)	Share of Exports in Product Lines with Zero Duty (%)	Share of Exports eligible for preferences (%)	Value of preferences (\$1000)	Value of preferences as share of total exports (%)	Value of Preferences from Apparel as a share of total exports (%)	preference utilisation rate
Swaziland	183,231	1.6%	88.9%	34,893	19.0%	19.0%	99.0%
Cape Verde	2,622	10.1%	89.9%	491	18.7%	18.7%	92.2%
Lesotho	401,785	2.7%	97.3%	72,350	18.0%	18.0%	99.4%
Madagascar	323,787	13.3%	86.7%	48,965	15.1%	15.1%	98.4%
Kenya	347,062	16.4%	83.4%	49,387	14.2%	14.1%	98.3%
Malawi	112,839	7.2%	92.8%	15,687	13.9%	4.4%	99.2%
Mauritius	218,619	19.3%	80.6%	27,034	12.4%	12.3%	87.6%
Mozambique	6,362	36.6%	63.4%	670	10.5%	7.7%	99.5%
Namibia	123,869	56.7%	43.3%	8,976	7.2%	7.2%	99.8%
Botswana	177,558	82.6%	17.4%	6,582	3.7%	3.7%	99.7%
Uganda	25,773	80.7%	19.3%	898	3.5%	3.4%	99.8%
Tanzania	32,879	83.1%	14.1%	584	1.8%	1.5%	88.6%
Ethiopia	61,705	91.3%	8.7%	945	1.5%	1.4%	98.5%
Ghana	100,353	84.4%	15.4%	1,209	1.2%	0.7%	95.8%
Niger	1,192	61.8%	30.5%	14	1.1%	0.0%	64.9%
South Africa	5,808,641	71.7%	27.4%	52,203	0.9%	0.2%	85.8%
Mali	3,155	82.8%	15.6%	11	0.4%	0.0%	58.7%
Burkina Faso	2,016	91.3%	7.9%	4	0.2%	0.0%	73.8%
Senegal	3,315	77.3%	22.5%	8	0.2%	0.0%	31.2%
Gambia	424	92.2%	2.1%	0	0.1%	0.0%	100.0%
Mauritania	823	75.7%	9.4%	1	0.1%	0.0%	34.5%
Rwanda	6,280	97.4%	2.6%	7	0.1%	0.0%	55.7%
Sierra Leone	9,424	89.8%	10.1%	14	0.1%	0.0%	23.7%
Angola	67,170	99.9%	0.1%	1	0.0%	0.0%	38.1%
Benin	514	97.9%	2.1%	0	0.0%	0.0%	22.0%
Cameroon	51,405	94.0%	5.6%	19	0.0%	0.0%	13.4%
Chad	15,079	99.8%	0.2%	0	0.0%	0.0%	0.0%
Congo	13,499	99.4%	0.6%	2	0.0%	0.0%	71.8%
DR Congo	128,181	99.1%	0.9%	26	0.0%	0.0%	90.1%
Djibouti	1,093	99.1%	0.0%	0	0.0%	0.0%	
Gabon	55,343	98.5%	1.5%	16	0.0%	0.0%	40.8%
Guinea	74,485	99.6%	0.3%	5	0.0%	0.0%	49.6%
Guinea Bissau	120	94.2%	5.8%	0	0.0%	0.0%	0.0%
Nigeria	104,859	97.6%	1.0%	25	0.0%	0.0%	41.0%
Sao Tome	213	52.1%	47.4%	0	0.0%	0.0%	0.0%
Seychelles	5,374	97.9%	1.7%	0	0.0%	0.0%	0.0%
Zambia	31,662	99.4%	0.5%	4	0.0%	0.0%	75.8%
TOTAL	8,502,711	62.3%	36.8%	321,030	3.8%	3.1%	95.4%

The third column in Table 1 shows the value of exports to the US that was eligible for preferences in the US in 2005. This is not necessarily the exact converse of the share of exports in zero duty products because of products such as sensitive agricultural products and

textiles that are excluded from AGOA and GSP preferences. These products represent approximately 0.9 percent of total non-oil exports to the US. The next column in Table 1 shows the calculated value of preferences for each beneficiary. This ranges from 0 to 19 percent of the value of exports to the US and is closely linked to the share of exports in dutiable products.

Table 2 summarizes this information and shows that for the majority of beneficiaries the value of preferences is very small or negligible. For 26 of the 37 beneficiaries the value of preferences is less than 2 percent of the value of exports to the US in 2005. For only 8 countries does the value of preferences exceed 10 percent of the value of exports to the US.

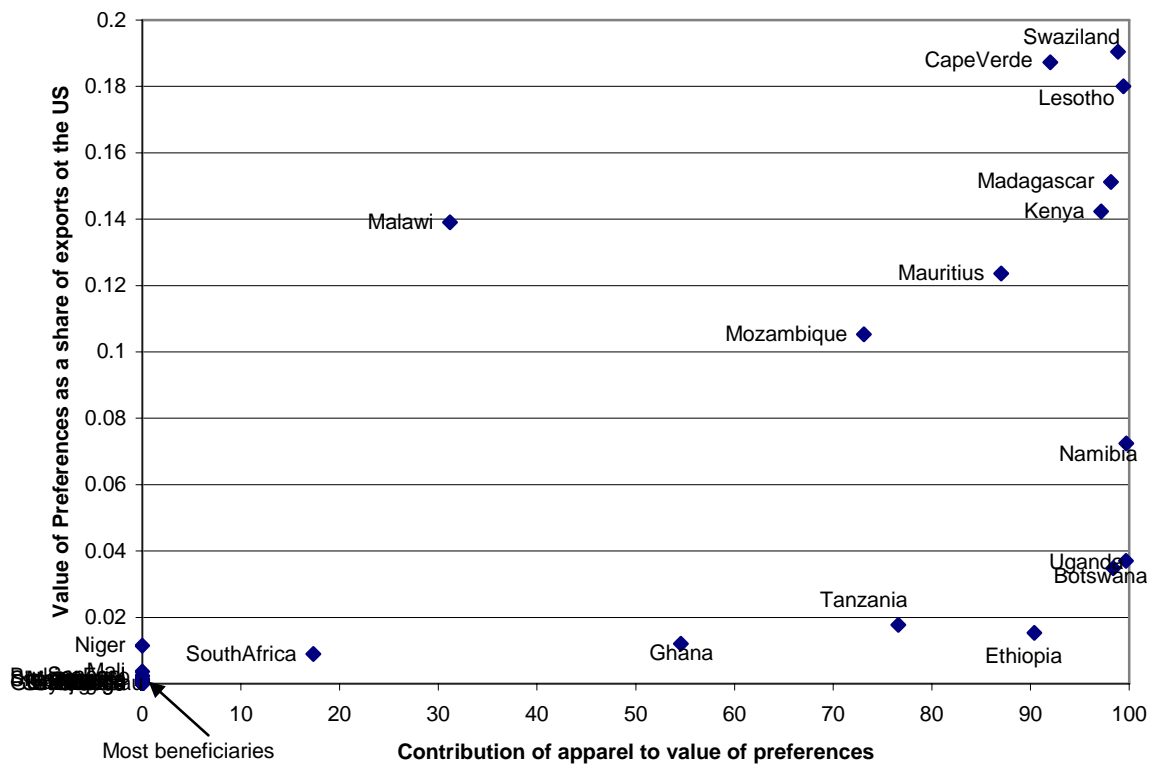
Table 2: Value of US Preferences in 2005 (% of the value exports)			
0-2%	2-5%	5-10 %	>10 %
Angola, Burkina Faso, Benin, Cameroon, Djibouti, Chad, Congo, DR Congo, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Nigeria, Rwanda, Sao Tome, Senegal, Seychelles, Sierra Leone, South Africa, Tanzania, Zambia	Botswana, Uganda	Namibia	Cape Verde, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Swaziland

Table 1 also provides information on the contribution of apparel exports to the value of preferences. For most countries US preferences under AGOA are driven by apparel. This is emphasized in Figure 4 which plots the share of apparel in exports that are eligible for preferences against the value of preferences. The majority of beneficiaries are represented in the dark over-written area in the bottom left hand corner of the figure where the contribution of apparel and the value of preferences are both very close to zero. Where the value of preferences is significant it is typically almost entirely due to apparel. The key exception is Malawi, where preferences for tobacco are important, although the contribution of apparel to the value of preferences is nearly 30 percent. Hence, factors that affect exports of apparel will have a very large influence on the future impact of AGOA, an issue to which we now turn.

7. The Prospects for Apparel Exports from Africa

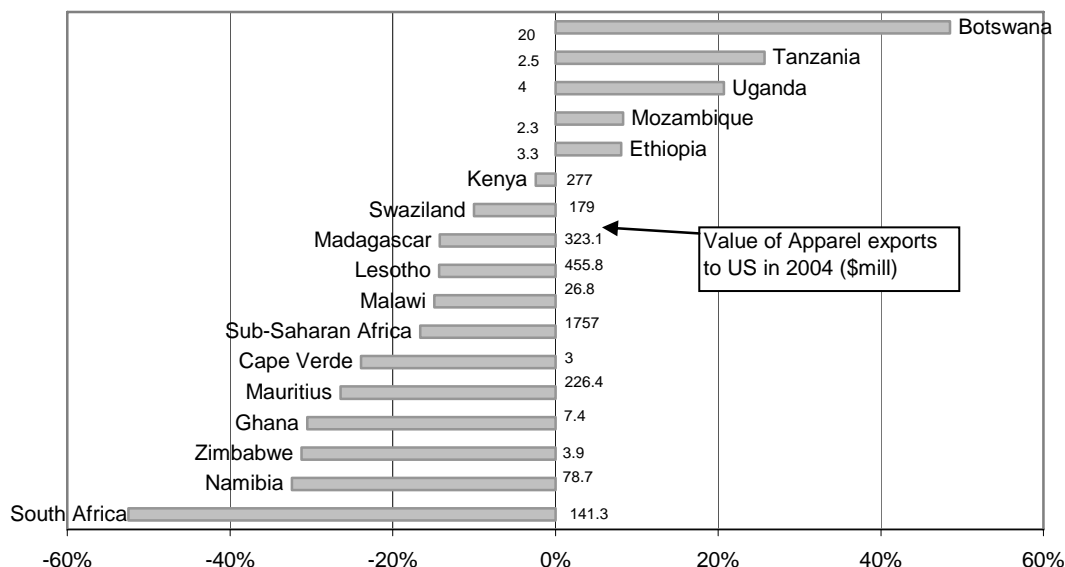
Two key policy changes are currently of relevance: the removal of quotas on imports from China and other Asian producers at the end of 2004 and the diminution in 2006 and then removal of the third country fabric provision of AGOA in September 2007. We discussed above how the removal of the third country fabric provision will undermine apparel exports. But will this matter if African countries are unable to compete with China in the more competitive post-quota climate? Certainly, by placing more onerous requirements on African apparel producers to use US or regional fabrics when these are not appropriate or least cost will hamper their ability to compete with China in the US market.

Figure 4: The Value of AGOA-GSP Preferences and the Contribution of Apparel (2005)



Whilst it is difficult to make definite conclusions, analysis of the initial impact of the removal of quotas suggests that some of the doom and gloom scenarios of widespread destruction of apparel jobs in Africa are inappropriate. Although some of the key beneficiaries of apparel preferences (Lesotho, Madagascar, Mauritius, Swaziland) have seen substantial declines in exports in 2005, other countries have managed to sustain exports (Kenya) and others have been able to substantially increase their exports (Tanzania, Mozambique, Botswana) (see Figure 5). An important feature of performance in the US market in the immediate aftermath of the removal of quotas is that those countries in Sub-Saharan Africa with an integrated textile and apparel sector (South Africa and to an extent Mauritius) have not fared better than countries exporting under the third country fabric rule. There are of course other factors, such as the increase in the value of the rand (which also explains some of the decline of Lesotho), which have contributed to these outcomes. Nevertheless, neither South Africa nor Mauritius believes that its prospects in the post quota world are enhanced by the backward linkages to textiles (Stevens and Kenan (2004)).

Figure 5: Apparel exports to the US, percentage increase 2004/05



Lesotho is a country where exports of apparel to the US expanded substantially after 2000, rising from \$140 million to \$456 million. Reports suggest that in 2004 the sector employed as many as 50000 workers. In the first 11 months of 2005, exports to the US were 15 percent lower than in the corresponding period in 2004. Nevertheless, exports in 2005 exceed those of 2000 by a factor of 2.5 and by over \$200 million. Initial reports in the press early in 2005 suggested that at least 10 factories had shut down and at least 10000 workers (around one-fifth of the industry workforce) had lost their jobs. Some commentators suggest that a portion of the job losses reflects substantial improvements in labor productivity. Others report that during the course of this year some factories have been re- or newly opened and that employment has recovered to 45000. There are, as yet, no official data or information on actual job losses in the apparel sector in Lesotho this year. The picture is also clouded by the fact that very similar products have exhibited quite different export performance. Exports to the US of women's and girls' cotton trousers have declined substantially but exports of men's and boys' cotton trousers have increased significantly.

The traded goods sector in Lesotho faces a plethora of challenges in addition to that posed by the removal of quotas on textiles and apparel. Bogetic (2006) finds that infrastructure service delivery in electricity, telephony, and roads is poor in Lesotho and even well below the average for countries of similar income. Removing these infrastructure shortfalls is fundamental to achieving cost competitiveness and realizing the growth prospects of a range of economic sectors (such as tourism) that depend critically on a stable and competitive supply of basic infrastructure service. These infrastructure limitations are a key constraint on regional integration, something that cannot be overcome by restrictive rules of origin that seek to encourage regional sourcing of inputs. In addition, there is substantial scope for improvements in the business climate, for example, with regard to the costs of starting a

business, enforcement of contracts and reducing the number of days needed for imported goods to clear customs.¹⁹

The situation in Kenya, where exports to the US have been sustained, highlights the challenges and opportunities (see Ozden (2005) for more details). Labor costs in Kenya are relatively low compared to key competitors. Information on labor cost per shirt produced suggests that costs in Kenya (\$0.18) are below those of China (\$0.29) and comparable with those of India (\$0.17). Accompanying the rapid increase in exports to the US has been entry into new product categories. More importantly these categories tend to be of higher price and quality. In addition, for a number of products, movements in relative prices suggest that Kenyan exporters have managed to improve the quality of their products, which augers well for their ability to withstand more intense competition.

Kenyan exports are currently totally concentrated on the US market. Although the nature of the EU market is less harmonized in terms of tastes than that of the US, there are still substantial opportunities in the EU market. The value of exports to the US is a multiple of 34 times greater than exports to the EU. At present, Kenya can export duty free to the EU (a margin of preference lower than the US, but still significant at around 12 percent) but faces the more restrictive rules of origin requiring production from yarn. If the EU were to adopt less restrictive rules of origin this may help to stimulate Kenyan's apparel exports. If the US were to make permanent the non-restrictive third country fabric requirement or adopt a general 10% value-added requirement for AGOA this would increase the pressure on the EU to adopt such development friendly rules of origin.

On the other hand, the World Bank's Investment Climate Assessment for Kenya highlights how competitiveness is undermined by high indirect costs, with the main barriers being corruption, crime and infrastructure. The key infrastructure barriers are poor transport, the high cost and unreliability of power services and costly and poor quality fixed-line telephone services. These costs undermine the advantages that Kenya possesses in terms of low cost, relatively well-educated labor, they depress productivity and constrain investment. Eiffert et al (2005) conclude that for Kenya "a long history of entrepreneurship is reflected in strong potential factory-floor productivity, but high costs and losses impede competitiveness". The key implication of the poor business environment is lower returns to labor in production which depresses labor demand and real wages. Thus, Kenya possesses advantages that would support a trade oriented strategy based on competitiveness in global markets but these advantages are undermined by a range of cost raising factors.

8. The Role of Preferences in Stimulating African Exports

While exports to the US of most of the countries which receive significant preferences (Malawi and Mauritius are the exceptions) have grown strongly since 2000 a number of countries that do not receive significant preferences have also grown strongly. For example, AGOA preferences are of little importance to Cameroon but exports to the US have almost doubled since 2000. Hence, there is no correlation between the magnitude of benefits from AGOA preferences and recent growth of exports to the US. Thus, while AGOA preferences have played a role in stimulating exports from some African countries, they are just one factor

¹⁹ See www.doingbusiness.org

among many affecting exports and competitiveness. This section discusses that the priority for all African countries lies in reducing underlying constraints to trade in the form of inadequate infrastructure for trade and weak policy environments.

It has become increasingly recognized that developing countries and especially least developed countries, face much higher trade-related costs than other countries in getting their products onto international markets. Sometimes these reflect institutional problems within the countries themselves, such as inefficient and corrupt customs, which require a domestic policy response. However, they also reflect the severely weak infrastructure of many countries that is crucial to support trade activities (in particular transport, telecommunications, energy) and the lack of access of firms in these countries to standard trade facilitating measures such as insurance and trade finance. Many developing countries also possess little capacity within government and the private sector to identify key trade barriers, to define a broadly supported trade strategy and to motivate the cross government action that is needed to alleviate such barriers. All developing countries in Africa face enormous problems in providing necessary infrastructure and a supportive policy environment for trade.

The argument for trade preferences is that they can provide a temporary mechanism whereby the margin of preferences allows firms in developing countries to offset these higher costs and establish an export presence and ultimately global competitiveness in industries and activities in which the country has a comparative advantage. It is important that the window is temporary so that inefficient, high-cost industries with entrenched lobbies do not constrain flexibility and adjustment. Multilateral trade liberalization contributes by ensuring that preferences have a short “half-life” and in limiting the long-term trade diverting impact of preferences on other countries (which typically will be other developing countries). However, it is crucial that the key factors that raise the costs of trading in developing countries are addressed otherwise sustainable and competitive activities will not be created. This applies to countries that benefit from preferences as well as those that do not.

Our analysis of the impact of AGOA shows that the impact of US trade preferences has been highly concentrated on the apparel sector, where the margin of preference remains large. For a large number of African countries trade preferences will not provide a mechanism for increased exports and growth in the short run.²⁰ For these countries, reinforcing traditional exports and facilitating export diversification by addressing policy and infrastructure constraints to trade will be necessary to stimulate exports, growth and poverty reduction. It is in this context that “aid for trade” can play an important role in supporting domestic reforms that improve policy environments and in filling infrastructure gaps that impinge on the capacity to trade.

In companion work we look in more detail at the magnitude and outcomes of trade assistance programs for African countries (Brenton and Hoppe 2006). Here we proceed to highlight the key issues and potential impacts with a specific example, that of Rwanda, presented in Box 2. This shows how carefully designed assistance programs can support greater exports, higher incomes and poverty reduction in the least developed countries. A key feature of such

²⁰ Similar analysis for EU trade preferences comes to similar conclusions. Substantial preferences are only available to a small number of African countries. See Brenton and Ikezuki (2005).

assistance is that it has supported the expansion of exports to all key markets. A trade preferences scheme can at best stimulate exports to a particular market. In fact in the case of Rwanda, preferences have played no role in the recent expansion of exports. Coffee, which has been the source of export growth, is subject to zero tariffs in both the US and the EU.²¹

It is worth putting the importance of coffee to Rwanda in context. Agriculture is the dominant activity for the 90 percent of the population living in rural areas. The industrial sector is very small. According to the 2002/3 survey of enterprises, total employment in the industrial sector was just 36,000, most of it in the public sector enterprises. This is a very small industrial base in relation to the almost half a million farmers who grow, at least some, coffee. So, in the short-run policies that enhance returns to coffee and other traditional exports and support farmers to shift out of subsistence activities into commercial production (those employed in producing traditional commercial crops for export tend to be less poor than farmers involved in non-market production) will have the greatest impact on poverty. Access to transport, for example, is a key factor affecting the propensity to shift into commercial production. Nevertheless, for sustainable long-term growth, it is necessary to complement such a strategy by pursuing diversification. Rwanda is typical of many poor countries in Africa, where poverty reduction in the short-term is inextricably linked with the export of traditional agricultural products.

Box 2: Rwandan Coffee – challenges, opportunities and the role of aid for trade

Coffee is a key export crop in Rwanda. In 2003, an aggressive strategy was developed to both increase total exports of coffee and move the industry into the high quality, specialty end of the market. This was estimated to require an investment of \$69m: \$24.75m from donors/NGOs, \$23m from the private sector, and \$21.25m from the Rwandan government. Two long-term, donor-funded projects have been assisting producers in developing buyer-seller relationships and assisting growers in upgrading quality. Aid projects have also helped farmers to form cooperatives to meet the requirements of “fair trade” coffee or to experiment with organic or shade grown coffees (all of which earn a substantial premium over regular coffee). This together with increased access to washing stations has also led to increases in farmer income by up to 55 percent. Washing and grading the coffee cherries has enabled those of higher quality to earn higher prices, giving farmers an incentive to increase quality. Regulatory reform has also allowed individual Rwandan cooperatives or private owners to negotiate directly with specialty roasters in the US and Europe, enabling them to sell to specialty markets at more than twice the market rate.

The quality and the image of Rwandan coffee have improved markedly. Rwandan exports to the US in 2005 were 140% higher than in 2003. This reflects a substantial increase in exports of coffee, Rwanda’s primary export. This increase in the value of exports was driven by a 37% increase in quantity and a 115 percent increase in the average price for Rwandan coffee exported to the US since 2003. Rwandan exports of coffee to the EU (the principal market with exports in 2004 being around 5 times larger than to the US - 18.2 million euro versus \$4.5 million) were 50 percent higher in 2005

²¹ It is worth noting here that coffee is subject to duties, sometimes high, in other developing countries. For example, coffee faces a duty of 100 percent in India, 40 percent in Thailand and over 14 percent in China. The current multilateral trade negotiations are the mechanism by which Rwanda can improve access to these markets and increase opportunities for Rwandan exporters. In addition, for traditional commodities, such as coffee, even if the reduction in tariffs in Asia does not lead to new exports there could be a positive impact on Rwanda through the impact on world prices. Reductions in tariffs in India and China that raise the demand for imports could lead to higher world prices for coffee.

than in 2004. This increase reflects a 25% increase in the quantity of coffee exports and a 40% increase in the average price of Rwandan coffee exported to the EU.

However, the industry still faces a number of challenges, for which further aid for trade will be needed, including: *access to finance* (donors are already providing some support and funding to streamline rural finance among producers' organizations); *access to low-cost transport* (the cost of transporting coffee from the farm gate to the port is 80% of the amount received by the coffee farmer and major upgrading of transport infrastructure is needed); *access to training* (around half a million Rwandan farmers need extensive training in all aspects of coffee production, but there are few agronomists); and *developing associations and cooperatives* (technical assistance is needed to strengthen coffee farmer cooperatives and to form an overall industry association, along with reform of unclear government regulations). Diop et al (2005) demonstrate how dealing with these constraints could have a profound impact on rural incomes and poverty in Rwanda.

Source: World Bank-IF, 2005 Rwanda: *Diagnostic Trade Integration Study*, Washington: World Bank.

9. Conclusions

This paper concludes that, while AGOA has played an important role in stimulating apparel activities in a small group of countries, its broader impact on the exports of Sub-Saharan African countries would be enhanced if

- Preferences were extended to all products. This means removing tariff barriers to a range of agricultural products and to textiles and a number of other manufactured products.
- There is a fundamental change in approach to the rules of origin. Given the stage of development and economic size of Sub-Saharan Africa, non-restrictive rules of origin are crucial. An appropriate rule is an across the board (including apparel) requirement that 10 percent of the value of the product be added in the beneficiary, supported by the option of being able to satisfy a change of tariff sub-heading requirement. This will allow flexibility in sourcing inputs and the basis for long-term competitiveness. It will further promote exports to the US and is more likely to support regional integration than the use of more restrictive rules which act to dampen the activities of final goods producers. There is an immediate need to review the provisions concerning the rules of origin for apparel. The diminution in October 2006 and then removal in 2007 of the third country fabric provisions will seriously undermine the apparel sectors in a number of African beneficiaries and remove the opportunity for other countries to diversify their exports.

It is important that AGOA trade preferences be put into an appropriate development framework. For all countries in Africa, those that have and those that have not benefited from preferences, there are enormous infrastructure weaknesses and often extremely adverse policy environments that raise trade costs and push African producers further away from international markets. Effective trade preferences (those with non-restrictive rules of origin) can provide a limited window of opportunity to export while these key barriers to trade are addressed. But dealing with the barriers is the priority.

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Appendix 1: The Impact of AGOA on Market Access²²

This appendix summarises the impact of AGOA in terms of the number of tariff lines that it liberalises, the average duties that would normally be paid on products covered by AGOA and the average duties on products that remain excluded from AGOA preferences. AGOA follows on from an existing scheme of preferences for developing countries under the GSP that was enhanced for the LDCs in 1997. Hence, we seek to highlight the additional liberalisation under AGOA. The analysis shows that for LDCs the impact of AGOA is concentrated on apparel products. It is the non-LDCs that receive the greatest additional impact in terms of access to the US market.

Agriculture

Table A1 shows that for the LDCs, AGOA liberalizes only an additional 26 agricultural tariff lines, equivalent in number to less than 2 percent of the total number of agricultural lines and just under 12 percent of the remaining dutiable lines. In the main the products liberalized under AGOA are those that have already been liberalized for LDCs under the provisions of the GSP. For non-LDCs, AGOA adds 541 products to the 519 products already eligible for duty-free preferences for developing countries under the GSP. Hence, the potential impact on the non-LDCs is much greater.

Table A1 also shows that there are over 200 agricultural tariff lines with no preference under AGOA, amounting to 17 percent of the total number of dutiable agricultural tariff lines in the US schedule. Of these lines more than 150 relate to the over quota rates for products subject to tariff rate quotas. Often these quotas are very small and many are allocated on a global basis. Hence, once total US imports exceed these quantitative limits exports from AGOA countries are subject to the normal MFN duty, which is often very high, together with any additional safeguard duties.

Table A1: Liberalization of Agricultural Products under AGOA – The Number of Tariff Lines Liberalized		
	Non-LDCs	LDCs
Total Tariff Lines	1723	1723
Total GSP	519	1038
GSP	519 (38)	547 (158)
GSP LDC	...	491
GSP LDC but not AGOA	...	4
AGO A	541 (120)	26
Duty-Free Lines	440	440
Lines Excluded from AGOA	223	219
Main sectors containing products excluded from preferences	Meat, Dairy Products, Sugar, Chocolate, Prepared Food Products, Tobacco, Groundnuts	

The numbers in brackets show the number of product lines relating to in-quota duty rates for products subject to TRQs.

²² This appendix draws heavily on Brenton and Ikezuki (2003)

Table A2: Unweighted Average MFN Tariffs for Agriculture Tariff Lines covered by AGOA and GSP, and for those excluded from Preferences in 2003		
	Non-LDCs	LDCs
Total GSP	3.5%	5.2%
GSP	3.5%	3.5%
GSP LDC	...	6.8%
Total AGOA	6.7%	7.7%
Dutiable Lines – Products excluded from AGOA	30.7%	31.0%

For specific tariffs trade data from 2002 are used to derive ad valorem equivalents. When there are zero duties for the GSP group of countries we use data for total imports to calculate the ad valorem equivalent.

Data source: USITC dataweb

Table A2 provides a simple look at the average MFN duties that apply to agricultural products. The numbers presented are simple unweighted averages of duties applied in 2003. This provides a crude view of the margins of preference available in the US. The table shows that AGOA covers products with higher duties than those covered by the GSP. For example, the average duty on agricultural products covered by the GSP for non-LDCs is 3.5 percent. The average duty on the additional products for which preferences are available for LDCs under the GSP is 6.8 percent²³, which is similar to the average duty on products liberalized under AGOA. These margins of preference can be compared with the overall average duty for agricultural products of around 12 percent.

Table A2 also shows that the products excluded from preferences are high-duty products. For agriculture the average duty on excluded products is over 30 percent, these include the out of quota duty rates for products affected by tariff rate quotas. This, at least in part, might explain why there may be so few exports of these products from Sub-Saharan African countries to the US. So, AGOA excludes many sensitive agricultural products and offers preferences on relatively low duty products and therefore does little to reduce the tariff escalation and tariff peaks facing African exporters.

Manufacturing

AGOA liberalizes 1,249 manufacturing tariff lines for non-LDCs on top of the 3,116 lines given duty free preferences under the GSP (Table A3). These additional preferences amount to 14 percent of the total number of manufacturing lines. Again, the impact for LDCs is more limited due to the prior liberalization of many lines under the GSP. AGOA liberalises an additional 199 lines compared to the 4,223 lines already liberalized under the GSP. The third and fourth columns of the table show the importance of the liberalization of apparel products under AGOA which adds an additional 557 tariff lines. This creates a significant difference in the benefits available to Sub-Saharan African LDCs under AGOA.

²³ We only include the in quota duty rates for the TRQ products in the calculation of the average MFN duty on AGOA products. We then put the out of quota rates in the calculation of the average duties on lines not covered by AGOA

For manufactures, about 16 percent of the dutiable lines are excluded from preferences for the countries that receive apparel benefits, while for those countries that have not been granted the apparel benefits duties must be paid on 25 percent of the dutiable lines in the US tariff schedule. The key products excluded from tariff preferences are textile products,²⁴ certain glass products and certain headwear. The average duty on textiles is over 8 percent and the duty on certain textile products reaches almost 30 percent.

Table A3: Liberalization of Manufacturing Products under AGOA – The Number of Tariff Lines Liberalized				
	Without apparel benefits		With apparel benefits	
	Non-LDC	LDC	Non-LDC	LDC
Total Lines	8660	8660	8660	8660
Total GSP	3116	4223	3116	4223
GSP	3116	3116	3116	3116
GSP LDC	...	1107	...	1107
GSP LDC but not AGOA	...	57	...	57
AGO A	1249	199	1806	756
Apparel (HS61, 62)	557	557
Duty-Free	2773	2773	2773	2775
Lines Excluded from AGOA	1522	1465	965	911
Main sectors containing products excluded from Preferences	Leather products, Textile and textile articles, Headgear, Glass and glassware			

Source: USITC Database

Table A4 shows that the average duty on manufactured products covered by the GSP is 3.8 percent. Products covered by the basic AGOA provisions are subject to an average duty of 6.1 percent and the apparel products on average pay a duty of more than 12 percent. The average tariff for manufactured products imported into the US is 3 percent. Hence, for manufactures AGOA includes products that have high duties relative to the overall average tariff for manufactures and so reduces the number of tariff peaks facing African exporters to the US. Nevertheless, the average duty on products not eligible for preferences is high relative to the overall average duty and high relative to the products covered by the GSP suggesting that a number of relatively high duty products remain excluded.

Thus regarding the impact of AGOA

- For the LDCs what matters is whether they are able to access the preferences on apparel products since most of the other products liberalized under AGOA had already been liberalized under the GSP. In terms of the number of tariff lines liberalized, the principal impact of AGOA falls on the non-LDC Sub-Saharan African countries.
- The inclusion of apparel ensures that AGOA removes significant tariff peaks within manufacturing. However, preferences for agricultural products remove lower than

²⁴ AGOA does provide preferences for specific textile items which are hand loomed, handmade or a folklore article of a beneficiary country, but in practice this has had no impact on trade. No imports into the US have been recorded of such products. A number of countries have been approved to export such products but the impact on trade will be minor.

average duties reflecting that AGOA excludes a range of high duty products. As a result tariff escalation and tariff peaks remain for agricultural products.

Table A4: Unweighted Average MFN Tariffs for Manufactured Products covered by AGOA and GSP, and for those excluded from Preferences in 2003				
	Without apparel benefits		With apparel benefits	
	Non-LDCs	LDCs	Non-LDCs	LDCs
Total GSP	3.8%	4.0%	3.8%	4.0%
GSP	3.8%	3.8%	3.8%	3.8%
GSP LDC	...	4.8%	...	4.8%
Total AGOA	6.1%	12.7%	7.7%	12.3%
AGOA (excluding GSP)	6.1%	12.7%	6.1%	12.7%
AGOA apparel	12.1%	12.1%
Dutiable Lines – Products excluded from AGOA	9.9%	10.2%	8.7%	9.1%

Source: USITC Database

Appendix 2

Examples of Products Excluded from AGOA Preferences			
		Imports from SSA in 2004 (\$000)	
Product	Duty in US	EU Imports	US Imports
Fresh or chilled meat of bovine Animals (boneless)	26.40%	78718	0
Frozen meat of bovine animals	26.40%	17891	0
Peanuts (in shell)	163.80%	1429	0
Peanuts (shelled)	131.80%	16852	0
Raw Sugar	33.87 c/kg	628432	39306
Chocolate (in blocks)	37.2 c/kg +8.5%	18169	2
Peanut Butter	131.80%	1283	0
Cotton	31.4 c/kg	232940	73
Printed bed linen of man-made Fibers	4.5-14.9%	2965	5
Footwear uppers of cotton	11.20%	4690	101